

Fairfax County Economic Index

Volume IX, Number 10

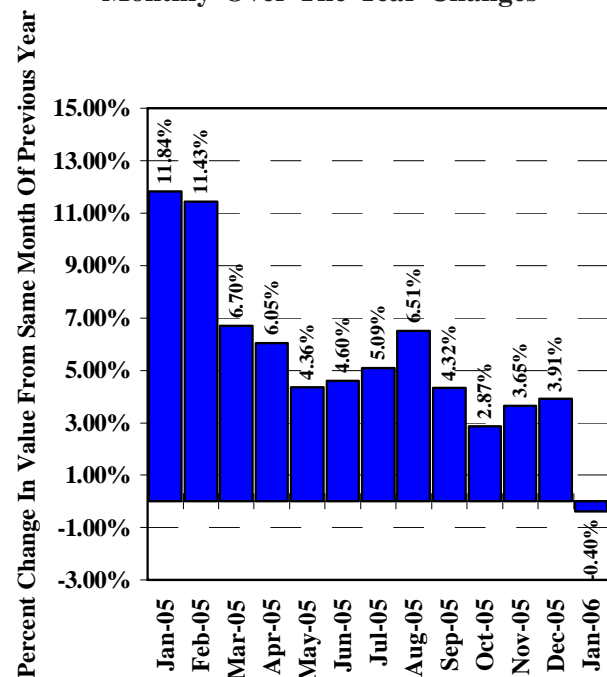
March 2006

The Economy Rebounded In January But Indicators Point To Slower Future Growth

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 135.4 in January for a gain of 1.88 percent. However, compared to January 2005 (the peak month of the expansion) the Coincident Index was lower by 0.4 percent. This monthly over-the-year decrease was the Index's first monthly decline following twenty-five consecutive increases. In January three of the Index's four indicators were positive.

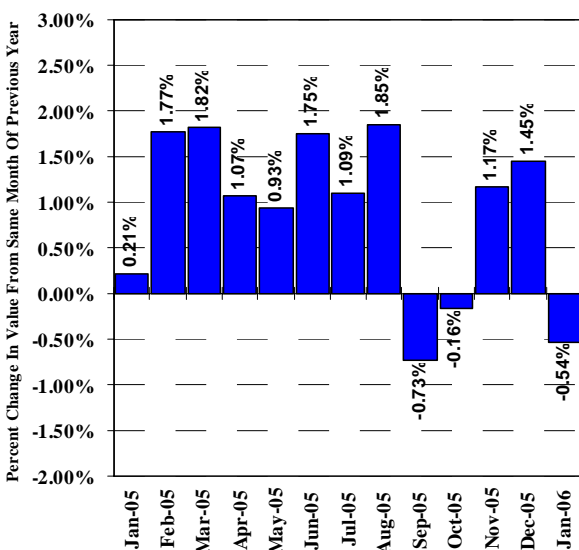
- Total employment increased following two monthly declines;
- Consumer confidence (in the present) was up for a third month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, rose sharply following two negative months; while
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down for the third month in a row.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

Fairfax County Leading Index Monthly-Over-The-Year Changes



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 107.5 in January or a loss of 1.79 percent. This month-to-month decline also resulted in a monthly over-the-year decrease in the Index, its third in five months following 29 consecutive monthly over-the-year increases. In January all three of the Index's component indicators contributed to its decline.

- Automobile registrations declined sharply in January following their strong gain in December;
- Initial claims for unemployment insurance increased (worsened) extending their upward trend to a second month; and,
- Consumer expectations (consumer confidence six months hence) decreased for a second month.

The Fairfax County economy showed renewed strength in January but its near-term outlook weakened as the Leading Index experienced a broad-based retreat. Some of January's economic weakness can be attributed to seasonal factors while some reflect the consequences of sustained strong growth over the past two years. The seasonally generated conditions that have undercut the County's economy will be self-correcting with the passage of time and the trend towards a more normal growth pattern should be viewed positively. Still, the pace of the economy's deceleration should be carefully monitored

over the year, as it will determine the economy's performance in 2007 when the national economy is projected to slow to a below-average gain of 2.7 percent.

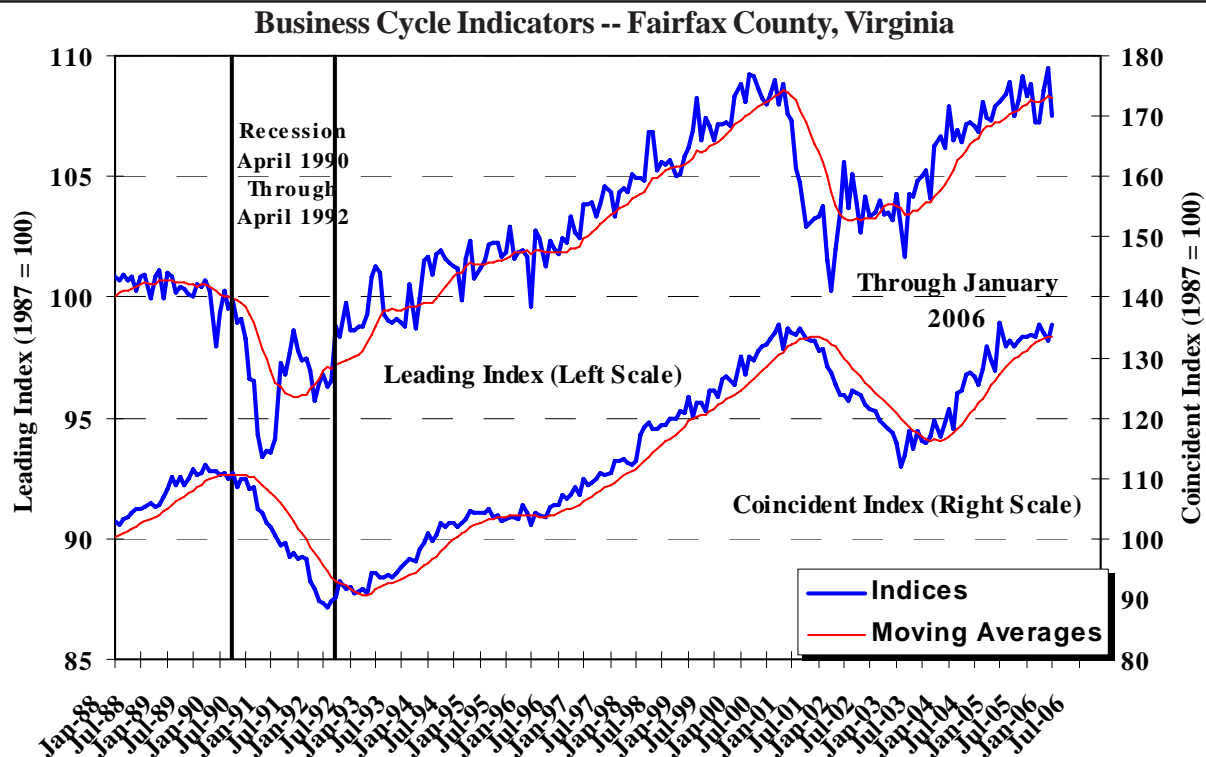
CURRENT CONDITIONS

The Department of Labor (Bureau of Labor Statistics) releases revised employment data in March of each year that affects the monthly estimates dating back up to two years. This year's revision for 2005 reduced the Washington metropolitan area's job growth from the previously estimated 82,000 net new jobs to 65,000 and added 7,000 jobs to the 2004 estimate (revised previously in March 2005) bringing its total to 71,000. Most of the last year's revision resulted from a reduction in the new jobs estimated for Suburban Maryland dropping its annual gain by approximately 11,000 to 13,500 new jobs. These revisions had little impact on Northern Virginia that ended up adding 43,300 new jobs for the year.

There were changes to Northern Virginia's job estimates but these were largely offsetting. More jobs were lost in the Information sector (MCI, AOL, Sprint/Nextel, and the print and electronic media) and in the Transport sector (US Airways/America West and Independence Air) than had been previously reported and more were gained in the Professional and Business Services sector. This latter sector reflects the continuing expansion of the federal contractor base in Northern Virginia and especially in Fairfax County.

This continuing churn to the area's job base has important income benefits. Where Professional and Business Services account for approximately 28 percent of the area's job base, it accounted for 41.5 percent of the new jobs added in 2005. With the average \$75,000 annual income of these new workers, job growth is generating increasing buying power and disposable income to the benefit of the residentially dependent sectors. This income growth has supported above-average job growth in construction, education and health, and hospitality (food services). However, because of continuing consolidation, retail and financial services sectors, while adding jobs, have not grown proportionally (up to their share of the existing job base) over the past several years.

The results of this continuing job growth are reflected in the County's labor force conditions. Unemployment remains so low that the shortage of



Source: Center for Regional Analysis, George Mason University

qualified workers is beginning to constrain the economy's expansion and wage inflation has become a threat to profitability. Also, the number of non-payroll jobs in the region is growing. These jobs include part-time, contract, self-employed, and undocumented workers (generally included in 1099 tax forms). While the metropolitan area was adding 65,000 payroll workers (full-time, year-round, W-2 form) it registered 98,300 more employed residents in January 2006 than in January 2005.

These data are not yet available for Fairfax County, but it is likely that it too has generated large numbers of new jobs that are more difficult to count and more easily discounted. Still, this labor force flexibility is a growing phenomenon in the knowledge-based, technology-intensive economy such as found in Fairfax County and may be pointing to the future shape of the work place.

NEAR-TERM OUTLOOK

This job growth, payroll and non-payroll, is the engine of the County's economy going forward. Without a sufficient supply of qualified and affordable workers, the County's economy will not be able to achieve its growth projected for 2006 and beyond.

As 2006 unfolds, labor force is one of the two major constraining forces that are expected to lower the County's economic growth curve in the second, third and fourth quarters. The other key variable, federal procurement spending, is expected to slow from its 2004 peak. This slowing is already factored into the projected growth rate for 2006 and 2007.

As 2006 begins, the Leading Index has retreated from its peak but remains high and is expected to resume its upward trend in the coming months. Currently, consumer spending has slowed consistent with rising debt burdens, lagging "expectations" and fears of higher interest rates. Consumer anxiety has been deepened by the realities of four years of expanding income and increased spending that was fed by mortgage refinancing and reliance on home equity loans. The recent slowing of consumer spending is being offset by increased business investment and local and capital spending by local and state governments. The Washington area and Fairfax County economies will continue to outpace the national economy in 2006 as each moderates over the year. Energy costs, consumer uncertainty and debt burden, and cautious business spending will keep growth lower but still expanding into 2007.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jan-06 Prelim.	Dec-05 Final	Jan-05 Final	Dec-05 to Jan-06	Jan-05 to Jan-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	135.41	132.91	135.96	1.88	-0.40
Leading Index (1987 = 100)	107.53	109.49	108.11	-1.79	-0.54
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	628,911	618,586	607,905	1.67	3.46
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>620,691</i>	<i>628,137</i>	<i>599,960</i>	<i>-1.19</i>	<i>3.46</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	718	753	869	-4.56	-17.36
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,292</i>	<i>1,492</i>	<i>1,517</i>	<i>-13.40</i>	<i>-14.79</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,767	8,884	9,986	9.94	-2.19
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,952</i>	<i>17,129</i>	<i>10,664</i>	<i>-36.06</i>	<i>2.70</i>
South Atlantic Consumer Confidence	147.2	144.1	132.0	2.15	11.52
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,107	6,804	6,908	-24.94	-26.08
<i>Automobile Registrations (Unadjusted)</i>	<i>4,295</i>	<i>5,926</i>	<i>5,810</i>	<i>-27.52</i>	<i>-26.08</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,037	812	1,019	27.71	1.81
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,462</i>	<i>792</i>	<i>1,436</i>	<i>84.60</i>	<i>1.81</i>
South Atlantic Consumer Expectations (Unadjusted)	99.6	103.0	102.8	-3.30	-3.11
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	600,002	600,479	583,533	-0.08	2.82
<i>Total Labor Force (Unadjusted)</i>	<i>592,880</i>	<i>596,720</i>	<i>576,607</i>	<i>-0.64</i>	<i>2.82</i>
Employed Labor Force (Seasonally Adjusted)	586,358	586,543	568,413	-0.03	3.16
<i>Employed Labor Force (Unadjusted)</i>	<i>579,204</i>	<i>584,042</i>	<i>561,478</i>	<i>-0.83</i>	<i>3.16</i>
Unemployed Labor Force (Seasonally Adjusted)	13,643	13,937	15,120	-2.10	-9.77
<i>Unemployed Labor Force (Unadjusted)</i>	<i>13,676</i>	<i>12,678</i>	<i>15,129</i>	<i>7.87</i>	<i>-9.60</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.3%	2.3%	2.6%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.3%</i>	<i>2.1%</i>	<i>2.6%</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

Prepared by:
Center for Regional Analysis
George Mason University
<http://cra.gmu.edu>

We are on the web at:
[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)

Inquiries should be directed to:

The Fairfax County
Department of Management and Budget
12000 Government Center Parkway, Suite 561
Fairfax, Virginia 22035-0074

(703) 324-2391 or 1-800-828-1120 (TDY)